

Social Security: A Challenge, Not a Crisis

Social Security Able To Pay 78% of Benefits After 2052

<i>Year</i>	<i>Milestone</i>	<i>Trust Fund Treasury Bond Holdings</i>
2020	Benefit payments exceed tax income.	\$5.8 Trillion
2033	Benefit payments exceed tax <i>and interest</i> income.	\$8.3 Trillion
2052	Trust fund reserve is exhausted. <i>Incoming payroll taxes will still cover 78% of costs.</i>	\$0

Prepared by the Democratic Staff of the House Budget Committee

Source: CBO

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Social Security is financed by the payroll tax that workers and employers pay on wages up to \$90,000.

In 2004, Social Security took in \$658 billion in taxes and interest and paid out \$493 billion in benefits. The \$156 billion surplus that did not go toward benefits and administrative expenses was deposited in the Social Security trust fund and invested in U.S. Treasury securities. These securities will be used to meet future program obligations, when annual tax income is expected to fall short of annual benefit payments.

The Treasury pays interest on these bonds like it does on all other bonds. In 2004, the trust fund received \$89 billion in interest.

These securities are backed by the full faith and credit of the United States government. Every day, in financial markets around the world, investors affirm that these are the highest-quality, lowest-risk assets available anywhere.

At the end of 2004, the assets of the trust fund were \$1.687 trillion. The Congressional Budget Office (CBO) projects that Social Security will receive more in dedicated taxes than it pays out in benefits every year until 2020. From 2020 through 2033, Social Security benefit payments will exceed tax revenues, but the program will be able to make up the difference using part of the annual interest it earns on the bonds in the trust fund. The trust fund's assets will continue to grow from \$5.8 trillion in 2020 to \$8.3 trillion in 2033.

In 2033, Social Security will need to begin liquidating the trust fund principal, and the balances of the trust fund will decline.

CBO projects that the trust funds will not be exhausted until 2052. If Congress takes no action to change the law before then, Social Security will still be able to pay 78 percent of benefits the following year, and around 70 percent of benefits indefinitely. This is the *worst-case scenario*. The system will not be “broke,” as the President has asserted.